



---

***Armenia SME Market Development Project***

**Armenia  
Small and Medium-Sized Enterprises  
Market Development Program  
(ASME)**

**QUARTERLY REPORT**

For the period

**1 April 2004 through 30 June 2004**

Prepared by

**Development Alternatives, Inc.**

For

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT**

Contract: OUT-PCE-I-806-99-00002-00

Delivery Order No. 806

# **ARMENIA SME MARKET DEVELOPMENT PROJECT**

## **Table of Contents**

**Summary**

**Non-service Area Specific Activities**

**Women in Development**

**EC Export Authorization**

**Coordination Efforts**

**Environmental**

**Service Component #1: Market and Demand Analysis**

**Benchmarks**

**Service Component #2: SME Development and Expansion**

**Benchmarks**

**Service Component #3: Financial Linkages**

**Benchmarks**

**Service Component #4: Skills Development & Information**

**Dissemination**

**Benchmarks**

**Service Component #5: Association Strengthening & Policy Advocacy**

**Benchmarks**

# **ARMENIA SME MARKET DEVELOPMENT PROJECT (ASME)**

## **Summary**

Following are summary highlights from this past Quarter's activity of the DAI-ASME project:

The major highlight of the quarter was the launch of our new efforts in the textile and apparel subsector and the program to expand our outreach to non-farm rural enterprises in the regions. Four new staff were hired to focus on these activities and sub-contracts were developed with business centers in Kapan, Goris, Berd and Gyumri through which they will facilitate our work with client firms in those areas as they develop their own capacity to provide valuable assistance to such clients themselves. The expansion of operations also made it necessary for us to seek larger office space, which was accomplished in mid-April. The new space not only provides a better working environment for our team and is more accessible to clients and other visitors, but it also provides us with a conference/training room large enough to accommodate groups of up to 50 participants. This enables us to realize considerable savings compared to the cost and inconvenience of renting outside space for workshops and training sessions.

### *Service Component # 1: Market and Demand Analysis*

- Provided technical assistance through four STTAs this quarter in cut flower marketing, leather processing, policy analysis and textiles and apparel.
- No market demand or supply/service surveys were completed this quarter though one was initiated to analyze the stone sub-sector and provide the basis for a coordinated strategy for promoting the development of companies in that cluster.

### *Service Component #2: SME Development and Expansion*

- Over 140 firms, including 16 WID companies, are regularly involved in DAI-ASME activities by receive direct hands-on consultancy, or via attendance at workshops and seminars, participation in trade shows and market tours, and/or receiving technical information and materials and market development leads.
- Assisted companies reported additional export sales of \$494,674 and \$1,657,933 in additional domestic sales this quarter compared to the corresponding quarter prior to receiving DAI-ASME assistance. Net sales increased by a total of \$8 million in the past four quarters compared to base year data for client firms.
- A total of 1502 new jobs (full time job equivalents) have been created by companies compared to their level of operation at the time assistance was initiated. This number is highly cyclical as our client portfolio is heavily

weighted towards agribusiness enterprises, most of which are at their lowest level of operations during the first and second quarters of the year. This figure will increase substantially during the next two quarters.

- Client companies reported 101 new buyer arrangements this quarter.

#### *Service Component #3: Financial Linkages*

- A total of 12 cost-share grants were approved during the quarter for marketing support (9) and operational support (3). The total value of these grants came to \$48,478.
- Seven companies were assisted to participate in the Horeca Trade Show in Beirut and one aquaculture company participated in a seafood exposition in Europe and two others participated in a trade show in Moscow supported by grants approved during the first quarter. The Greenhouse Association was also assisted in its participation in the CIS trade show in Yerevan sponsored by the Chamber of Commerce.
- One company (Vitamax-E) was assisted to initiate a Good Manufacturing Practices (GMP) certification program at its production facility that will enable the company to improve its overall operations management, and achieve international industry standards.

#### *Service Component #4: Skills Development and Information Dissemination*

- A pre-bid workshop was conducted by John Palmucci for BSPs interested in participating in the tender for an Analysis of the Armenian Quarry and Stone Processing Industry. Five BSPs attended the workshop.
- An extensive three-day training on Subsector Analysis for BSPs was conducted by James Grall, from DAI/Bethesda and Gary Kilmer on May 17, 18, 19. Ten representatives from 7 BSPs took part.

#### *Service Component #5: Association Strengthening and Policy Advocacy*

- For two weeks in May, DAI Senior Development Specialist James Grall worked with DAI-ASME, the Union of Manufacturers and Businessmen of Armenia (UMBA) and the Merchants' Union (MU) to further efforts to create an independent policy analysis institute in Armenia.

#### *Market Development Successes and Activities Involving DAI-ASME Assistance:*

During the past quarter, the SME community recorded a number of significant achievements resulting directly from DAI-ASME technical and/or financial assistance. The following are examples of those achievements.

Akvatekh, with ASME cost-share assistance, participated in Seafood Russia 2004 in Moscow. This specialized international trade show held in mid-April, resulted in a firm contract plus ongoing negotiations with other local and major Russian buyers. The firm contract was with a large Moscow wholesaler to supply a minimum of 120 tons of processed fish products per year. Additionally, the two companies agreed to establish a specialized depot in Moscow for distribution of Akvatekh's products within the city and throughout Russia. This opportunity is directly related to the completion of Akvatekh's new fish processing facility, which has been developed in compliance with all HACCP standards and supported by a cost share grant from ASME. Akvatekh is now in a key position to capture additional market opportunities for its new value-added products.

Henry-Gor, another recipient of ASME assistance, also exhibited at Seafood Russia, 2004. The company signed a contract with another Moscow wholesaler to supply 105 tons of frozen crawfish in sauce within a 7-month period. Henry-Gor shipped the first 10 tons in mid-May and the company has actively been preparing for successive deliveries. Additionally, initial contacts were made with, and samples sent, to Domodedovo Air Service; the company being interested in Henry-Gor's semi-finished products.

As a result of participation in HORECA 2004, a trade show in Beirut, Lebanon, a number of serious trade leads have been developed with buyers from throughout the Middle East, Gulf States and Cyprus for crawfish, meat products, frozen fruits, preserves, dried fruits and herbs, ice-cream and pastries, processed vegetables and food supplement products.

As a further result of our July 2003 market tour to Jordan, the owner of Khalaf National Group recently arrived in Armenia, observing production processes and becoming acquainted with product mixes at Geghard, Akvatekh and Noyan. Khalaf National is an importer and distributor of gourmet products, including specialty meat and poultry, fish, cheese and preserves to the largest supermarkets, hotels and gourmet stores in Jordan as well as other Middle East countries. Prior to arrival, Khalaf paved the way for purchases by obtaining permission from Jordanian government for imports from Armenia. Follow up is underway with each of the companies.

Noyan Juices continue to work on development of its marketing and advertising strategy as a direct result of DAI-ASME's Advanced Marketing Training and two cost-shared local market surveys on juices. As a first step in re-establishing its domestic market promotional activities, "Noyan" has placed billboards throughout Yerevan. The effort will be followed by a series of more targeted marketing, advertising and promotional activities in the local market.

In the export arena, Noyan's partner in Dubai is successfully presenting Noyan juices in a number of super and hypermarkets in the UAE by organizing tasting events and other promotional activities. Noyan and their Dubai representative are currently negotiating terms and conditions for the further shipments and cost sharing opportunities of advertising costs related to this new market entry.

BAKSS' participation in the European Seafood Exhibition in Brussels in early-May proved to be a definite success. Agreements with 15 importers from a number of EU countries will potentially result in BAKSS more than doubling its current sales volumes. Shipments have already been made to six of the first-time buyers in Germany, Austria, Denmark, and the Czech Republic.

Based on the success of previous training programs with Cheer, DAI-ASME is supporting the Association of Dried Food Producers to continue sharing knowledge and skills with other fruit and vegetable drying businesses in major production regions of Armenia. The Association has expanded the training geographically and will provide a larger package of support services to additional dried fruit and vegetable producers. The result is the efficient usage of all types of dryers and higher production volumes and consistently high quality.

A two-phase beekeeping training program was completed in Shirak marz, implemented by "Beekeepers and Farmers Union in Artik", targeting 304 beekeepers in Shirak marz from October 2003 to May 2004. Along with the training materials provided by DAI-ASME, the Union has also provided information about the world apicultural achievements and developments, updates of which were acquired during the Apimondia 2003 and ApiExpo 2003 in Slovenia. The primary objective of this program was to deliver the "Train the Trainer" program material to a greater number of beekeepers in order to expand the capacity of Armenian beekeepers to produce increased volumes of exportable honey and to increase the ability of Artik's Union to provide valuable services to its members leading to joint marketing efforts in the future.

A one-day beekeeping training program was implemented in Noyemberyan, Tavush marz for 18 local beekeepers, on May 26th, 2004. The program was organized by "Navi" business promotion center in Noyemberyan and carried out by three local beekeeping Unions (Beekeepers and Farmers Union in Artik, "Beekeeper" Beekeeping Union in Vardenis, "Meghu" Beekeepers Union in Kapan and Multi Agro Ltd. The ultimate goal of the program, besides the training itself, was to create networks that will propel existing efforts forward, provide marketing and technical assistance to its members, give more beekeepers access to new beekeeping technologies and disease treatments and foster the role of the Union in the regional beekeeping industry development.

Following the 3<sup>rd</sup> *Women in Development* workshop held in March 2004, promising collaboration trends have formed among individual WID companies. A number of visits have taken place between relatively experienced companies like Ureni, Ready Steady, Narex, Ruz-Dan, Vordi Armen, Tamar Tatik, Isker Hrashk, Voske Hat limited liability companies, on the one hand, and Artel Group Ltd, Mariam Grigoryan Ltd, Gohar Sahinyan SP, Jani Magrani and Aytents LLCs, on the other, resulting in several agreements related to product supplies, services and purchases. Currently, Vanadzor based Ruz-Dan Company (garment and linen production) provides a number of WID companies with uniforms with their company names and logos. Vordi Armen's cheeses, at the initiative of Narex and Ruz-Dan, have been introduced into the Lori Marz markets; Aytents and Mariam Grigoryan have entered

into wool purchase negotiations. Ready Steady Ltd., a lunch delivery and catering company, has gained three new clients due to the leads provided by other WID companies. Gohar Sahinyan, SP, a garment designer, was attracted to work with Artel Group Ltd.; a company involved in textiles and garment production.

Vordi Armen, received DAI-ASME's technical assistance in crisis resolution for improvement of the company's overall health and future financial management. Negotiations with USDA on restructuring their loan repayment schedule were carried out, with the company successfully making the last of its payments, and earlier than the deadline scheduled. Meanwhile, the company's management and accounting practices and medium term strategic plan are being further analyzed with the assistance of ASME staff.

## **Non-Service Area Specific Activities**

### ***Women in Development (WID)***

As of June 2004, 16 WID companies were regularly involved in DAI-ASME project activities. One new WID companies – Artel Group -- joined the group. During the quarter one-on-one strategic planning was undertaken with the core group of the WID clientele, including Ready Steady, Mariam Grigoryan, Vordi Armen, Tamar Tatik, and Ureni LLCs. The primary objectives for further development and strengthening of the WID companies were: improvement of their business and financial management (Tamar Tatik, Vordi Armen), corporate structuring (Mariam Grigoryan, Artel Group) and market expansion (Ready Steady, Solda, Ruz-Dan).

Five 5 WID companies are preparing for the upcoming trade shows in Yerevan (September 2004), Strasburg (December 2004), and Dubai (February 2005).

### ***EC Export Authorization***

As a follow up to earlier efforts, DAI-ASME sponsored, coordinated, and hosted a one-day seminar on exports of fish and fishery products to the EU. Francisco Blaha, the director of EU Fishery Standards program, presented the newly developed EU Certification Procedures and Inspection Manual to major Armenian fish growing and processing companies who export, or intend to export, to the EU. Blaha discussed registration and listing issues, food safety requirements, inspection and certification rules, responsibilities of industry and competent authority.

The seminar was attended by 27 people from 12 organizations, including six businesses (12 participants) and two BSPs, as well as ADA and AUA. Included in the targeted audience were a number of relevant staff (mainly food inspectors) from the Ministry of Health. In addition to its essential informative and teaching impact, this event proved especially valuable and effective in that it brought together key persons from the private sector, consulting firms and government for better interaction towards maintaining EU market access requirements.

## ***Coordination and Collaboration***

In a country as small as Armenia with the relatively large number of development efforts being carried out by a range of donor and implementing organizations, efficiency requires that every effort be made to coordinate efforts wherever possible. We take that need very seriously as illustrated by the following examples:

We are continuing efforts with the Micro Enterprise Development Initiative (MEDI) project and the USDA to insure that the best possible use is made of our combined resources without duplication or competition. We are also participating in the new Coordinating Council for Micro, Small and Medium Enterprise Development that has recently been established by the Ministry of Trade and Economic Development.

During this quarter special efforts were also made to cooperate with the EU program on the development of appropriate standards for the aquaculture industry as well as to the USAID team charged with carrying out an analysis of various competitiveness factors related to specific industries. We also supported the effort of another USAID sponsored program to undertake a comprehensive analysis of a potential food safety training program for Armenia and analyze the need for a diagnostic laboratory focused on trans-species zoonotic diseases in animals. Meetings were also held with visiting delegations from the World Bank, FAO and IFAD with regard to their ongoing program design activities and with the Children of Armenia Foundation, which is undertaking an ambitious model village program.

As an integral part of our new Non-Farm Rural Enterprise component, DAI-ASME is developing operational alliances with four business service centers in Tavush, Shirak and Syunik marzes. The idea is to take advantage of synergies involving diverse activities like 'farm stores' for accessing high quality, reasonably priced production inputs, leasing of equipment, and consolidated output marketing efforts. We are also reaching out to previously overlooked or underutilized businesses in those rural areas to develop opportunities in wide ranging activities such as livestock slaughter facilities and related hide preparation and marketing, stone cutting, metal fabrication, traditional handicrafts and others.

## ***Environment***

DAI/ASME developed an "Environmental Protection & Occupational Safety Guideline & Checklists for SMEs," based on internationally accepted general requirements and specific environmental procedures developed by USAID. It includes environmental impact assessment, mitigation and monitoring, best practices and standard conditions of small-scale infrastructure development and businesses. This document is an integral part of our overall strategic planning process, ensuring clients' preparedness to respond to rapidly changing international standards and requirements, especially in EU and US markets. It also serves to reduce the gap between clients' current state and ISO/HACCP certification requirements. The document also explains the importance of a correct environmental/occupational safety policy from the standpoint of a long-term investment (saving money, creating added value for products/services, attraction of new customers, better public image, more advertising opportunities, etc.).



Related to this effort, DAI/ASME staff member M. Sarafyan participated in a 3-day training course (June 25, 28 and 29, 2004) organized by USAID and conducted by Dr. Mohammad A. Latif, USAID Regional Environmental Officer.

Among other EP activities, DAI/ASME consultant Mr. A. Zink visited Armenia in April to provide technical assistance to the USAID/ARD project on the design of an effluent treatment plant (ETP) at Armenia's largest tannery ("Kashi") and identified potential suppliers of equipment. DAI/ASME continues to assist the Armenian Tanneries Association (ATA) in installation of modern drying frames and wastewater treatment, as well as in identification of chemicals' suppliers and sources of small capacity machinery, to upgrade output quality and expand production volume.

The ATA, which is now experiencing rapid growth and started export activities to Georgia, was provided with technical assistance in upgrading members' facilities and controlling effluent discharge. This task is now one of the key elements in DAI/ASME's strategic planning, which includes serious consideration of environmental issues in all types of businesses with which DAI-ASME works.

## **Service Component #1: Market and Demand Analysis**

### **Objectives**

DAI-ASME seeks to increase revenue, profitability and employment in selected sectors of the Armenian economy through a set of market-driven interventions targeted at SMEs. Service Component #1 is designed to provide in-depth knowledge of international market demand, most especially in selected export markets including Russia, Europe, the Middle East, Gulf States, and North America, as well as, knowledge of market demand within the Armenian domestic market.

### **Technical Assistance through STTAs**

Four efforts were completed this past Quarter:

- Follow-up and Expansion of Activities by Augusto Zink.
- Training on Sub-sector Analysis, by James Grall.
- Textile Follow-up and Strategy by Jeffrey Silberman.
- Flower Auction Development by Nancy Laws.

Following are brief comments on the efforts. More specific details on the efforts, their objectives, backgrounds, activities and results, are contained in the studies themselves, which are available through the DAI-ASME office.

Follow-up and Expansion of Activities implemented by Zink in November 2003 focusing on environmental and technical issues. Mr. Zink worked with a representative of ECOPlus Italian Co., chosen by ARD/USAID on a bid basis to supply and install the ETP equipment in "Kashi" tannery. The purpose of this cooperation was to ensure that the details of civil works are in compliance with Mr. Zink's design and specifications of equipment to be installed. The ATA, which is now

experiencing rapid growth and started export activities to Georgia, provided technical assistance in upgrading their facilities and controlling effluent discharge. The task is one of the key elements in DAI-ASME strategic planning, which includes serious consideration of environmental issues in all types of agribusiness that DAI-ASME works with. In addition, Mr. Zink, on a cost-share basis, advised on the disassembly and preparation for shipment of surplus equipment being sold by Kashi Tannery to generate needed working capital.

Institutional Capacity Building of Associations The purpose of this effort was to provide intensive follow-up to Grall's earlier technical assistance to UMBA and MU in their development of the Analytical Center. The visit involved a follow-up visit to Yerevan for the consultant in May 2004 to provide expertise on efficient/working communication mechanism(s) between the Founders, Board members, the staff, the Government, and the business community, development of long-, mid- and short-term strategic programs and grant project proposals for potential financing of the Center.

Textile Follow-up and Strategy This activity served to assist in developing a specific strategy for responding to the needs of companies in the textiles portion of the industry including yarn mills, weavers and garment makers requiring textile products from abroad. During the visit Metax silk company, Tosp knitting company, Gyumri yarn spinning mill, Aragats terry cloth manufacturer were met and issues related to their raw material needs were discussed. In Tosp knitting factory, the STTA particularly worked on identification of problems related to air conditioning and ventilation system set-up, the printing facilities upgrade for better quality print materials, etc. The main topics discussed with Aragats and Gyumri yarn were for cotton yarn quality improvement plan, which may later include upgrade of plants with better equipment and also consider better quality cotton sources search. Jeff Silberman also visited the Exlab and discussed the possible start-up of textile fabrics, dyes and yarns testing services.

Flower Auction Development The principle objectives of the activity are to facilitate the transfer of necessary technical and organizational know-how for establishing a modern wholesale flower auction, and locate a potential foreign investment partner for Brabion Flora. Such an auction will serve as a vehicle for consolidation of grower outputs to the wholesale flower market, allowing development of its export potential vis-à-vis better quality flowers and higher return on its production. While there is a wholesale flower market of sorts in operation in Yerevan, it is woefully inadequate for any export potential, lacking any cool storage, sorting or handling facilities – or even proper lighting. Establishment of this modern trading center would be the first of its kind in Armenia. STTA Nancy Laws led a small team from Armenia on visits to operating auctions in Germany and the Netherlands to draw lessons for adaptation/replication in Armenia. The Armenian participants undertook a similar trip to Istanbul Turkey for a similar purpose.

## **Surveys**

No domestic market surveys were completed this Quarter by local BSPs under contract with DAI-ASME. A country-wide survey of the stone sector was initiated by

a local sub-contractor (BSC) during the quarter with final results expected to be available in mid-August.

#### Service Component # 1 Benchmarks:

Benchmark	Life of Project Projected Total	Cumulative Total to March 31, 2003	Achieved in the Current Quarter	Cumulative Life of Project Total to Date
Market demand studies	25	30	0	30
Supply/Service studies and cross-sector efforts	8	10	0	10
Countries covered by international market studies	10	10	0	10
Countries covered by regional market studies	4	4	0	4
Web based market information system developed	1	1	Update	Update

## Service Component #2: SME Development and Expansion

### Objectives

DAI-ASME provides integrated technical assistance to the Armenian SME community to identify market opportunities and provide firm-level assistance for sustainable commercial growth primarily in export markets. DAI-ASME also supports efforts in domestic market sectors where there is a potential for increased activity by Armenian firms.

### Memorandum of Agreement

Three additional companies signed Memoranda of Agreement (MoAs) with DAI-ASME this Quarter. The MoA serves as a document that provides assurance to both sides on cooperation. Most especially, it assures clients that information shared with DAI-ASME will remain confidential unless released by the client, and that the client will provide baseline (as well as quarterly follow up) data for monitoring and evaluation purposes. A Memorandum of Agreement was signed this Quarter with Artel Group LLC (handicraft production). Several others will be added next quarter as a result of the new non-farm rural enterprise initiative.

### Technical Assistance Provided to Armenian SMEs:

Following is a list of workshops, seminars, trade shows and/or market tours conducted for SMEs by DAI-ASME during this Quarter. A brief description of selected key

activities is provided. For more information regarding past and future events please contact the DAI-ASME office or visit our web page at [www.ArmeniaAg.org](http://www.ArmeniaAg.org).

### ***Workshops/Seminars***

#	Title	Dates
1.	Clean technologies in leather industry	April 19, 2004
2.	Style, Color and Fabric Trends Seminar	April 28, 2004
3.	Non-Farm Rural Enterprise Start-up Workshop	May 6-7, 2004
4.	Stone Market Prebid Workshop	May 14, 2004
5.	Sub-sector analysis training	May 17-19, 2004
6.	Seminar on Exports of Fish and Fishery Products to the EU	June 16, 2004

### ***Trade shows/Market Tours***

#	Title	Dates
1.	Seafood Russia 2004 Trade Show	April 12-19, 2004
2.	Flower Auction Study Tour to Holland and Germany	April 18-25, 2004
3.	HORECA 2004 Food & Beverage Show, Lebanon	April 27-30, 2004
4.	European Seafood Exposition	May 3-10, 2004
5.	Flower Auction Study Tour to Turkey	June 28- July 02, 2004

### **HORECA 2004 Trade Show**

As a result of participation in HORECA 2004, a trade show in Beirut, Lebanon, a number of serious trade leads have been developed with buyers from throughout the Middle East, Gulf States and Cyprus for crawfish, meat products, frozen fruits, preserves, dried fruits and herbs, ice-cream and pastries, processed vegetables and food supplement products. With assistance from DAI-ASME, Geghard Meat, BAKSS, Tamara Fruit, Tamara, Karmir Lolik, Cheer and Vitamax-E developed contacts representing import/distribution companies, some of which have recently visited Armenia to follow-up with others scheduled to arrive soon. Contract negotiations are in progress in several cases. In other cases, recipe adaptations are being discussed to better meet buyer demand preferences.

### **Seminar on Style, color and fabric trends for spring-summer 2005 season**

A seminar took place on April 28<sup>th</sup> involving about 30 people from some 20 companies – both manufacturers and design houses. The presentation was made by DAI- ASME textile and apparel business consultant Armine Tadevosyan. She presented fashion trends and forecasting materials and information collected at Premier Vision trade show, Feb 2004. Participants were given a printed brochure – seminar material including the color card of the season and all basic fabric trend information, which is a very practical tool for any fabric and garment manufacturer to use in collection development. At the end of the seminar, suggestions and offers were made to continue this kind of professional trainings and even get a group of designers together in an association around those activities.

### **Sales Generated by the DAI-ASME Clients.**

DAI-ASME client companies generated an increase of \$3.78 million in domestic sales and \$4.22 million in export sales during the last four Quarters compared to their base year totals. The pace at which sales (especially export sales) are increasing reflects the continuous work the ASME team has done with a relatively small group of companies that are now making a serious and sustainable place for themselves in established export markets and a number of other firms, with whom we have shorter experience, who taste their first success.

### **Service Component #2: Benchmarks**

<b>Benchmark</b>	<b>Life of Project Projected Total</b>	<b>Cumulative Total to March 31, 2003</b>	<b>Achieved in Year 4 through Quarter 3</b>	<b>Cumulative Life of Project Total to Date</b>
Primary SME firms assisted and strengthened	125	119	1 *	120
Supply and service firms assisted and strengthened	10	5	0 *	5
Women owned/managed SMEs assisted and strengthened	20	15	1 *	16
Trade shows & market tours attended and/or conducted	40	24	5 <sup>1</sup>	29
New buyer arrangements for client firms	85	636	101	737

\* Newly signed MoAs

### **Sales Reported in this Quarter:**

	<b>Export</b>	<b>Domestic</b>
Current quarter compared to same quarter of base year	\$ 494,674	\$1,657,933
Most recent four quarters compared to base year total	\$3,781,528	\$4,223,361

### **Jobs Generated in this Quarter:**

Direct jobs created compared to the base quarter	332
FTE jobs created compared to the base year	1,170

### **Service Component #3: Financial Linkages**

---

<sup>1</sup> Seafood Russia 2004, Auction Study Tour to Holland and Germany, Horeca 2004, European Seafood Exposition, Auction Study Tour to Turkey

**Background:** Small and medium-scale agribusinesses generally lack effective access to commercial and investment finance programs sufficient to attract the medium and longer term financial resources they need to develop their businesses. Lack of experience on the part of many business owners coupled with high interest rates and the demand for high multiples of urban real estate value as collateral make it difficult for their capital needs to be satisfied by the commercial banking system as it now exists.

The objective of Service Component #3 is to help client enterprises develop viable and sustainable long-term linkages with commercial banks and other parts of the business finance infrastructure. Four different mechanisms have been defined:

- 1) **Market/Product Development Cost-Share Grants:** This is a cost-sharing device aimed at supporting agribusiness firms by assisting in their market development activities, such as attendance at trade shows, participation in market study tours, and the development of quality promotional and packaging materials. Activity associated with these grants is reported under Service Component #2 though they do also increase a client's ability to attract funding from the commercial finance institutions.
- 2) **Operational Support Cost-Share Grants:** DAI-ASME provides technical assistance to client firms, subcontracted on a cost-share basis where appropriate, through its network of associated local business service providers (BSPs) or from its own staff and STTA resources. This technical assistance is aimed at helping the clients develop and implement a viable strategic plan for the development of their business and to gain access to the financial organizations that might be able to support them. These grants can also be applied to helping the companies achieve other production and/or management improvements such as the development and installation of quality management and food safety systems. In addition to supporting individual client firms, these cost-share grants are also used to support activities of other SME-directed organizations that work to strengthen the overall SME community such as the SME Development National Center, the Armenia Development Agency and business associations.
- 3) **Capital Finance Support Cost-Share Grants - Non-Leasing:** Client firms may be given a cost-share grant to co-finance specific capital requirements and increase their ability to obtain commercial bank or other financing to meet the balance of its capital requirements. Such grants are applied, along with leveraged capital from the firm's own or outside resources, to the implementation of capital expansion plans aimed at increasing the firm's ability to produce and compete effectively in export and domestic markets.
- 4) **Capital Finance Support Cost-Share Grants - Leasing:** The DAI-ASME team has actively promoted and supported the development of a privately owned and financed commercial leasing company in Armenia. ACBA Leasing Company, SA was formally inaugurated on April 25, 2003 marking the completion of all required registration procedures with the Armenian Central Bank and the confirmation of all shareholder investments and loan

financing. Operational grants were provided to support establishment of ACBA leasing company itself. The new company is currently operating and executing its lease agreements, which are a much-needed alternative to those businesses requiring significant amounts of new equipment but who lack the collateral to raise the funds required to purchase the equipment outright in their own name. Cost share grants will be made available to companies to facilitate and finance certain capital costs that are associated with the installation and use of leased equipment.

### Service Component #3 Benchmarks:

Benchmark	Life of Project Projected Total	Cumulative Total to Date *
<b>Market/Product Development Cost-Share Grants – Study Tours, Trade Shows, Product Development, etc.</b>		
Number of Grants	100	<b>109</b>
Value of Grants	\$ 300,000	<b>\$ 175,336.50</b>
Number of Companies Assisted	25	<b>45</b>
Leveraged Funds	\$ 300,000	<b>\$177,121</b>
<b>Operational Support Cost-Share Grants – Business Plans, Quality Management Systems, Technical Support, etc.</b>		
Number of Grants	40	<b>69</b>
Value of Grants	\$ 400,000	<b>\$ 131,526.98</b>
Number of Companies Assisted	20	<b>42</b>
Leveraged Funds	\$ 400,000	<b>\$68,902</b>
<b>Capital Finance Support Cost-Share Grants – Commercial Loans, FDI, Supplier Credit, Other</b>		
Number of Grants.	25	<b>28</b>
Value of Grants	\$ 1,000,000	<b>\$ 715,668.00</b>
Leveraged Funds (excluding leases)	\$ 3,000,000	<b>\$2,523,890</b>
<b>Capital Finance Support Cost-Share Grants – Leasing.</b>		
Number of Grants (Leases Leveraged)	40	<b>0</b>
Value of Grants	\$ 800,000	<b>0</b>
Leveraged Leases (#)		<b>66</b>
Leveraged Leases (Value)		<b>\$744,050</b>
Leasing Company Operational Support	\$ 1,200,000	<b>\$ 1,200,000</b>
Leveraged Capital (committed)		<b>\$3,000,000</b>
<b>Other Benchmarks</b>		
Woman-Owned Firms Receiving Financial Assistance through DAI-ASME	10	<b>20</b>
Joint Ventures Established	8	<b>1</b>

**Benchmark Notes:** Cost Share Grant activity in the Marketing and Operational areas continued during the quarter supporting the exploration of additional export markets in Middle East (HORECA trade show) and Europe (Seafood Europe). One grant for ISO and GMP certification was signed during the quarter valued at \$11,000 to Vitamax-E, a pharmaceutical company producing Narine food additives.

During the quarter DAI-ASME also provided assistance to the Greenhouse Association to support its participation in the CIS Exhibition 2004 in Yerevan organized by the Chamber of Commerce and Industry and to Dried Fruit Producers' Association to organize training activities for its member companies.

As the quarter ended, 91.43 % (excluding ACBA Leasing Operational Support Grant) of the Project's total approved cost share grants had been disbursed and their impact

monitored. Capital cost-share grants were leveraging counterpart funds from client firms, banks and others at a rate of 1 to 3.53. Marketing and Operational Support grants (excluding ACBA Leasing Operational Support Grant) average cost-sharing ratios have been approximately 1 to 1.01 and 1 to .52 respectively.

**Market/Product Development Cost-Share Grants:** Nine new grants totaling \$25,828 were approved in this category during the quarter to share the cost of a crayfish processing company's participation in "ESE 2004 Seafood Europe" trade show and seven agribusiness companies' participation in the "HORECA 2004" trade show and the Greenhouse Association event mentioned above.

**Operational Support Cost Share Grants:** Three new Operational Support grants totaling \$22,650 were approved during the quarter. One supported Dried Fruit Producers' Association in conducting and implementing a training program for improvement of production and sanitary conditions and quality systems of dried fruit producers, one to ADA to share the cost of the market trip to Dubai and one to Vitamax-E to share the cost of GMP certification of the company's operations.

**Capital Finance Support Cost-Share Grants – Other:** No new cost-share grants in this category was approved during the quarter.

**Capital Finance Support Cost-Share Grants – Leasing:** There were no cost share grants in this category during the quarter.

**Leasing Company Activity:** Leasing activity got underway in earnest during the quarter with 66 leases being executed worth a total of \$774,000. Delays in the initiation of farm equipment leases caused by the lack of a credible dealer in Armenia have been overcome and one company has now begun importing and assembling tractors here, both adding value to the imported product and creating approximately 18 full time jobs in the assembly of imported equipment and the local manufacture of related implement sets.

## **Service Component #4: Skills Development and Information Dissemination**

### **Background**

Limited local capacity has existed within private Armenian institutions to provide technical assistance to Armenian SMEs. Service Component #4 aims at strengthening the capacity of local business service providers (BSPs) to provide sustainable market and technical assistance to Armenian SMEs on a commercial market basis. To this end, DAI-ASME supports, strengthens and collaborates with privately owned Armenian BSPs that will then be positioned to provide continuing technical and business consulting services to SMEs. At the request of USAID, DAI-ASME is reducing the emphasis of this aspect of the program in deference to the MEDI program, which focuses much of its attention in this area. We will continue to make use of BSP services where appropriate and provide targeted training activities specifically relevant to BSP work with SMEs. Two such training activities are being prepared for the upcoming quarter.



## Capacity Building Agreements (CBAs)

No new capacity building agreements were signed during the past quarter and the number of BSPs with signed CBAs cooperating with DAI-ASME remains 30.

### BSP Capacity Building Activities Implemented

A pre-bid workshop was conducted by John Palmucci for BSPs tendering to carry out the Analysis of the Armenian Quarry and Stone Processing Industry. 5 BSPs attended the workshop.

DAI consultant James Grall, and Gary Kilmer, conducted an intensive three-day training on Subsector Analysis for BSPs on May 17, 18, 19. Ten representatives from 7 BSPs were trained. A follow up workshop for BSPs on Feasibility Studies is now planned for September 2004.

### Seminars/Training Workshops

The Subsector Analysis seminar (see above), was attended by 16 persons, including representatives from MEDI, ADA and SME DNC. With the joint efforts of DAI-ASME and Ministry of Health another seminar on Export of Fish and Fishery Products to the EU was conducted by Francisco Blaha, Director of the EU Fishery Standards Support Program and DAI-ASME's Grisha Shirvanyan on June 16 for both SMEs and BSPs. Among 12 participants were representatives of 6 SMEs and 2 BSPs. Style, Colour and Fabric Trends seminar was conducted by Armine Tadevosyan, DAI-ASME in April. 11 SMEs attended the seminar. Augusto Zink, DAI-ASME consultant and Mikayel Sarafyan, DAI-ASME provided a seminar on Clean Technologies in Leather Industry in April.

## Performance Contracts

DAI-ASME continues to award performance contracts to BSPs to carry out various research, training, or firm level assistance tasks. This quarter, BSC was awarded a contract to provide an Analysis of the Armenian Quarry and Stone Processing Industry.

### Service Component # 4 Benchmarks:

Benchmark	Life of Project Projected Total	Project total – Through March 2004.)	Current Quarter	Cumulative Life of Project Total to Date
1. Armenian BSPs with signed Capacity Building Agreements	30	30	0	30

2. BSP Capacity building activities implemented	60	58	5	60
3. SME seminars/training workshops completed	51	64	5	69
4. SME seminars/training workshops focused on woman-owned SMEs	11	9	0	9
5. SMEs receiving training services	400	522	25	547
6. Performance agreements awarded to BSPs for project services	41	26	1	27

## Service Component #5: Association Strengthening and Policy Advocacy

### Objectives

Service Component #5 is geared to assisting the SME community to create a business-supportive environment that allows the community to operate in a fair and transparent manner. DAI-ASME originally planned to assist selected associations and trade organizations improve their ability to serve their SME constituency in development of a supportive business environment. There are, however, a limited number of legitimate business associations operating in Armenia that provide services of value to their members and few that are capable of assisting SMEs address business environment-type problems. Because of the nascent state of agribusiness association development, DAI-ASME has undertaken alternative processes to identify and address policy issues that impede the ability of businesses to operate in a fair and openly competitive environment.

### Activities to Strengthen the Policy Advocacy Capabilities of SME Support Organizations

ASME continued working with UMBA and MU and assisting them in the process of establishing an analytical center. Based on the *Guidelines and Recommendations for Starting an Analytical Center in Armenia*, developed by DAI's James Grall, UMBA and MU are now in the process of establishing the Analytical Center. For two weeks in May 2004, DAI Senior Development Specialist James Grall worked with DAI/ASME and Gagik Makaryan, UMBA and Tsolvard Gevorgyan, MU to further their efforts to create an independent policy analysis institute in Armenia. The founders and a newly created board of directors have begun the process of registering the *Armenian Foundation for Independent Analysis, AFIA*. In May, the board of directors held three retreats to work with Grall on specifics of starting AFIA. The board has since developed its by-laws, strategic plan, operating budget, and has

created board committees to take the next concrete steps of making AFIA a reality. AFIA is currently recruiting for an executive director and staff and undertaking an aggressive fundraising campaign to secure much needed operating capital. The founding organizations, the Union of Businessmen and Manufacturers (UMBA) and the Merchant's Union (MU) have contributed cash and in-kind donations to get AFIA off the ground.

AFIA will be the first truly independent, grass-roots initiated public policy institute in Armenia. Its mission is to promote a favorable business environment and to facilitate a public-private dialogue through independent analysis and research.

### ***EC Export Authorization***

As a follow up to earlier efforts, DAI-ASME sponsored, coordinated, and hosted a one-day seminar on exports of fish and fishery products to the EU. Francisco Blaha, the director of EU Fishery Standards program, presented the newly developed EU Certification Procedures and Inspection Manual to major Armenian fish growing and processing companies who export, or intend to export, to the EU. Blaha discussed registration and listing issues, food safety requirements, inspection and certification rules, responsibilities of industry and competent authority.

The seminar attracted significant interest and was attended by 27 people from 12 organizations, including six businesses (12 participants) and two BSPs as well as ADA and AUA. Included in the targeted audience was a number of relevant staff (mainly food inspectors) from the Ministry of Health. In addition to its essential informative and teaching impact, this event proved especially valuable and effective in that it brought together key persons from private sector, consultation firms and government for better interaction towards maintaining EU market access requirements.

*Note: With the beginning of the MEDI Project and their involvement in Business Skills Development, Association Strengthening and Policy Advocacy, DAI-ASME's efforts in Components 4 and 5 have significantly reduced in size at the request of USAID.*

## Service Component # 5 Benchmarks:

Note: Preparation of a Work Plan and Benchmarks for Year 4 has been deferred pending a final decision from USAID on the contract extension now under discussion.

<b>Benchmark</b>	<b>Life of Project Projected Total</b>	<b>Cumulative Life of Project Through March 2004</b>	<b>Current Quarter</b>	<b>Cumulative Life of Project to Date</b>
<b>Policy issue generation workshops</b>	20	17	0	17
<b>Policy working groups established</b>	8	12	0	12
<b>Policy issues identified and addressed</b>	15	3	0	3
<b>SMEs participating in addressing policy issues</b>	400	358	0	358
<b>Activities to strengthen the policy advocacy capabilities of SME support organizations</b>	15	11	1	12